

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 3337-01
BILL NO.: HB 1495
SUBJECT: Banks and Financial Institutions; Economic Development; Economic Development Department.
TYPE: Original
DATE: April 3, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$3,148,278) to (\$10,351,483)	(\$3,143,919) to (\$10,365,138)	(\$3,147,630) to (\$10,374,551)
Capital Revolving Loan	\$0	\$0	\$0
Equity Investment Revolving	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds *	(\$3,148,278) to (\$10,351,483)	(\$3,143,919) to (\$10,365,138)	(\$3,147,630) to (\$10,374,551)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses

This fiscal note contains 6 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state this proposal enacts the Missouri Small Business Promotion Act. Within this act, the Capital Revolving Loan Fund and the Equity Investment Revolving Fund are created. Loans and investments shall be made by appropriations from the Capital Revolving Fund or the Equity Investment Revolving Fund for the purpose of promoting the creation or retention of jobs within small businesses. Grants can be made from the Capital Revolving Fund for the purpose of technical assistance.

The DOR assumes this proposal will have little or no administrative impact to their department.

Officials from the **Department of Economic Development (DED)** assume this proposal would authorize the creation of the Missouri Small Business Promotion Act. The DED is authorized to make grants, loans, and equity investments to assist small businesses. DED would also be authorized to work with intermediaries and other financial institutions.

The DED assumes that a range of \$3 million to \$10 million, with a mid-range of \$6.5 million will be appropriated to fund this program. Based on that estimate, the DED assumes the need for six (6) FTE with necessary equipment and expense. The DED states that the actual impact is difficult to determine since there is no minimum or maximum loan or grant amounts set in the proposal, and if the \$3 to \$10 million range is in error, the DED assumes their estimate of needed FTE will need to be changed accordingly. The six (6) FTE consist of one (1) Market Development Program Administrator (at \$52,464 annually) for oversight and administration of the program, three (3) Loan Service Officers (each at \$44,136 annually) to administer one area each of loan, grant and equity investment programs, one (1) Community Development Program Specialist (at \$39,696 annually) to administer the community technical assistance project and one (1) Accounting Analyst III (at \$46,080 annually) to conduct accounting work on loans, grants, and equity investments as well as track and monitor activity.

Oversight assumes the DED would not need the Accounting Analyst III FTE that was requested, nor appropriations for additional office space.

Officials from the **Office of Administration, Budget and Planning** and the **State Treasurer's Office** assume this proposal will have no fiscal impact on their respective agencies.

Oversight has estimated the annual fiscal impact of the proposal as a range of \$3 million to \$10 million, subject to appropriation by the General Assembly. The staff needed by the Department of Economic Development were then ranged from two (2) FTE to five (5) FTE, plus fringe

ASSUMPTION (continued)

benefits and necessary expense and equipment. Oversight assumes actual program costs will ultimately be determined by funding decisions of the General Assembly. Oversight assumes the appropriations made to the Capital Revolving Loan Fund and the Equity Investment Fund as well and any revenues received from loan payments, interest payments, etc. would be expended in the same year on qualified businesses, intermediaries and other financial institutions.

<u>FISCAL IMPACT - State Government</u>	FY 2001	FY 2002	FY 2003
	(10 Mo.)		

GENERAL REVENUE FUND

Loss - Appropriations for funding of Missouri

Small Business Promotion Act through the			
Capital Revolving Loan Fund and the	(\$3,000,000) to (\$3,000,000) to (\$3,000,000) to		
Equity Investment Revolving Fund	(\$10,000,000) (\$10,000,000) (\$10,000,000)		

Costs - Department of Economic Development

Personal Service (2 to 5 FTE)	(\$75,369) to (\$191,741)	(\$92,741) to (\$235,937)	(\$95,059) to (\$241,836)
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Fringe Benefits	(\$23,176) to (\$58,960)	(\$28,518) to (\$72,551)	(\$29,231) to (\$74,365)
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Expense and Equipment	(\$49,733) to (\$100,782)	(\$22,660) to (\$56,650)	(\$23,340) to (\$58,350)
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Total <u>Costs</u> - DED	(\$148,278) to (\$351,483)	(\$143,919) to (\$365,138)	(\$147,630) to (\$374,551)
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ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(\$3,148,278) to (\$10,351,483)	(\$3,143,919) to (\$10,365,138)	(\$3,147,630) to (\$10,374,551)
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-----SUBJECT TO APPROPRIATION-----

CAPITAL REVOLVING LOAN FUND

Income - Transfers from General
 Revenue Fund

Unknown	Unknown	Unknown
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<u>FISCAL IMPACT - State Government</u> (continued)	FY 2001 (10 Mo.)	FY 2002	FY 2003
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<u>Revenue</u> - Loan Payments	Unknown	Unknown	Unknown
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<u>Revenue</u> - Premiums, fees and charges issued by the DED.	Unknown	Unknown	Unknown
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<u>Costs</u> - Loans, Equity Investments or Grants to small businesses or financial intermediaries	(Unknown)	(Unknown)	(Unknown)
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ESTIMATED NET EFFECT ON CAPITAL REVOLVING LOAN FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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EQUITY INVESTMENT REVOLVING FUND

<u>Income</u> - Transfers from General Revenue Fund	Unknown	Unknown	Unknown
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<u>Revenue</u> - Loan Payments	Unknown	Unknown	Unknown
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<u>Costs</u> - Equity Investments in small businesses	(Unknown)	(Unknown)	(Unknown)
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ESTIMATED NET EFFECT ON EQUITY INVESTMENT REVOLVING FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

A direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This proposed legislation establishes economic development incentives for small businesses through the Missouri Small Business Promotion Act. The proposal defines a small business as any for-profit business with fewer than 500 full time employees, or any business determined by the Department of Economic Development (DED) to be not dominant in its field. In its main provisions, the proposal;

- (1) Authorizes DED to make loan or equity investments to small businesses, from appropriations made to the newly established Capital Revolving Loan Fund or the Equity Investment Revolving Fund, for the purpose of job creation or retention within small businesses, or to modernize or maintain the competitiveness of firms;
- (2) Authorizes DED to make grants to or through financial intermediaries from appropriations made to the Capital Revolving Fund for the purpose of providing technical assistance to not-for-profit organizations;
- (3) Authorizes DED to make loans to or investments in businesses that received federal Phase I Small Business Innovation Research grants, but which have not yet received Phase II grants;
- (4) Authorizes DED to enter into contracts, establish applications, and determine and collect fees related to implementing the provisions of the act, and to take whatever actions are appropriate to protect the state in the event of bankruptcy, default, or foreclosure;
- (5) Requires that a loan made through this act only be made if DED determines that the project would not be undertaken without the loan, and be matched by other lenders or investors; loans are limited to the lesser of 25% of the amount of a project or \$750,000, unless these limits are waived by the Director of DED.
- (6) Requires that loans be made only if DED determines that a project has the potential to create or retain employment, or to modernize or improve the competitiveness of a firm; loans are to be made only with businesses certifying the project as a new plant start-up, modernization or expansion, or a new venture opportunity not involving the relocation of an existing business from one site in the state to another, unless the relocation results in substantial employment growth;
- (7) Establishes a Credit Review Committee within DED, the composition, duration, and

authority of which is to be determined by DED;

DESCRIPTION (continued)

(8) Authorizes DED to use different criteria in making loans to minority, female, or disability small businesses, as defined in the bill, requiring such loans to be protected by security, and limiting the loans to \$50,000 or 50% of project costs, unless the Director of DED waives these limits;

(9) Authorizes the DED to use financial intermediaries to assist young firms, mature firms, and other targeted credit-disadvantaged firms;

(10) Establishes a Comprehensive Community Technical Assistance Project within DED to assist 5 communities selected by DED through a competitive process for the following purposes: to develop a comprehensive understanding of the community; to plan for industrial retention and development; to establish an early warning network to warn of potential business closings; and to provide ongoing technical assistance;

(11) Authorizes DED to administer equity investments and equity intermediary agreements in and on behalf of businesses, including young, high risk, technology-based firms;

(12) Requires that each year in January the DED report to the Governor and the General Assembly on the operations of the Capital Revolving Loan Fund and the Equity Investment Revolving Fund; and

(13) Provides DED with rule-making authority for implementation of the bill's provisions.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
State Treasurer's Office
Office of Administration

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A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large initial "J" and a cursive "e" at the end.

Jeanne Jarrett, CPA
Director
April 3, 2000